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E.O. 12356: DECL: OADR  
TAGS: OREP (BRADLEY, WILLIAM), EPET, MX  
SUBJECT: VISIT OF SENATOR BRADLEY WITH PEMEX DG BETETA

1. CONFIDENTIAL - ENTIRE TEXT  
2. SUMMARY: SENATOR BRADLEY MET FOR OVER AN HOUR WITH PEMEX DIRECTOR GENERAL MARIO RAMON BETETA. BETETA DESCRIBED PEMEX POSITION AND ROLE IN THE MEXICAN ECONOMY, WHICH HE SAID WAS UNFORTUNATELY TOO LARGE. HE ALSO DESCRIBED MEXICO'S OIL POLICY WHICH IS TO EXPORT 1.5 MILLION B/D AND WORK FOR MARKET STABILITY. HE ALSO SAID THAT MEXICO NEEDED MORE FOREIGN INVESTMENT. THE PEMEX IMAGE (SYMBOL) OF MEXICAN ECONOMIC INDEPENDENCE MAKES IT HARDER TO CHANGE POLICIES AS CONDITIONS CHANGE. MEXICO'S FIRST CONCERN NOW WAS A SHARP AND STEEP DROP IN OIL PRICES WHICH NOT ONLY WOULD HURT MEXICO'S ECONOMY BUT DAMAGE THE INTERNATIONAL FINANCIAL STRUCTURE.  
END SUMMARY.

3. SENATOR BILL BRADLEY (D-N.J.) VISITED WITH PEMEX DIRECTOR GENERAL MARIO RAMON BETETA ON DECEMBER 30. AFTER WELCOMING SENATOR BRADLEY, BETETA DESCRIBED THE OIL INDUSTRY'S AND PEMEX'S ROLE IN THE MEXICAN ECONOMY. HE SAID THAT IT WAS UNFORTUNATE THAT PEMEX WAS SUCH A DOMINANT FACTOR IN CERTAIN AREAS OF THE ECONOMY (GOVERNMENT REVENUES, FOREIGN EXCHANGE, ETC.). IT IS GOM POLICY TO INCREASE NON-OIL EXPORTS AND TO SUBSTITUTE FOR IMPORTS WITH DOMESTIC PRODUCTION.

4. MEXICO'S OIL POLICY REMAINS ONE OF MAINTAINING EXPORTS AT 1.5 MILLION B/D AND WORKING FOR MARKET STABILITY. WITH THESE PARAMETERS, MEXICO HAS DISCOVERED THAT EXPORT SHORTFALLS ARE MORE COSTLY THAN PRICE REDUCTIONS. THEREFORE, MEXICO IS LOOKING FOR A MECHANISM TO MORE AUTOMATICALLY ADJUST PRICES IN ACCORD WITH SPOT PRICES.

5. WITHOUT BEING SPECIFIC OR RELATING IT TO THE OIL INDUSTRY, BETETA SAID THAT THE GOM WANTS AND NEEDS FOREIGN INVESTMENT. HE SAID THAT THE GOM WAS WILLING TO MAKE ATTRACTIVE INCENTIVES.

6. OVER THE PAST THREE YEARS, ONE OBJECTIVE OF PEMEX HAS BEEN TO MAKE THE INSTITUTION MORE EFFICIENT. TO THIS END BETETA SAID MEASURES HAVE BEEN TAKEN TO REDUCE THE COSTS OF PRODUCING WHILE INCREASING DEBT PAYMENTS,

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PAYING MORE IN TAXES AND INCREASING "PROFITS." BETETA SAID THAT PEMEX WAS ONE OF THE WORLD'S MOST PROFITABLE OIL COMPANIES BUT WOULD NOT WANT THIS TERMINOLOGY TO BE USED PUBLICLY. HE FEARS THE UNION MIGHT WANT A PROFIT SHARING ARRANGEMENT.

7. SOME OF THE DIFFICULTIES PEMEX ENCOUNTERS IN MAKING CHANGES RESULT FROM ITS IMAGE (SYMBOL) OF MEXICAN ECONOMIC INDEPENDENCE AND RESISTANCE FROM THE UNION. THERE IS A PSYCHOLOGICAL LINK IN THE MINDS OF MANY MEXICANS BETWEEN PEMEX AND ECONOMIC INDEPENDENCE WHICH STEMS FROM THE NATIONALIZATION OF THE OIL INDUSTRY IN 1938. THIS FACT CAN MAKE IT DIFFICULT TO ADJUST RAPIDLY TO MARKET CONDITIONS AND TO EXPORT LARGE AMOUNTS OF OIL TO A SINGLE COUNTRY. MEXICO DOES NOT WISH TO BECOME DEPENDENT ON ANY ONE MARKET OR TO HAVE A MARKET BECOME TOO DEPENDENT ON MEXICO.

8. THE OIL WORKERS UNION, SOME 160,000 MEMBERS STRONG, IS ONE OF THE MOST POWERFUL AND RICHEST UNIONS IN MEXICO. ACCORDING TO BETETA, IT IS SKILLFULLY LEAD AND EFFECTIVE IN PURSUING ITS INTEREST. HE HAS HAD TO LOOK FOR NEW WAYS TO DEAL WITH IT. ALTHOUGH THE UNION AND MANAGEMENT DO NOT SHARE THE SAME SET OF VALUES, THEY HAVE WORKED OUT MOST OF THEIR DIFFERENCES AND THE UNION HAS A SENSE OF "GOOD-OF-THE COUNTRY" WHICH PUTS LIMITS ON SOME OF ITS DEMANDS.

9. WHAT MEXICO IS MOST CONCERNED ABOUT AT THIS TIME IS A LARGE AND STEEP DROP IN OIL PRICES WHICH BETETA FEARS WOULD NOT ONLY DAMAGE THE MEXICAN ECONOMY BUT WOULD THREATEN THE INTERNATIONAL FINANCIAL STRUCTURE. ASKED WHAT HE THOUGHT WAS A BOTTOM-LINE OIL PRICE, BETETA HEDGED HIS RESPONSE BY NOTING THAT THERE WERE SEVERAL VARIABLES AFFECTING REVENUE AND THAT THE MOVEMENT OF INTEREST RATES WAS A FACTOR IN DETERMINING MEXICO'S EXTERNAL OBLIGATIONS.

10. RESPONDING TO OTHER QUESTIONS, BETETA MENTIONED THE FOLLOWING:

-- EFFICIENCY EFFORTS ARE ON-GOING;

-- IMPORT SUBSTITUTION EFFORTS HAVE REDUCED THE

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IMPORT OF PARTS AND SOME EQUIPMENT BY 50 PERCENT OVER THE PAST FEW YEARS;

-- THE 50 PERCENT CRUDE OIL EXPORT LIMIT TO A SINGLE COUNTRY IS A RULE OF THUMB WHICH WILL HOLD AS LONG AS MARKET CONDITIONS PERMIT;

-- THAT MEXICO HAD MUCH TO DO ON ENERGY SAVINGS. IN THIS REGARD INCREASED DOMESTIC FUEL PRICES WOULD HELP THE CONSERVATION EFFORT.

11. ON THE MATTER OF INVESTMENTS, BETETA SAID THAT ABOUT 20 PERCENT OF PEMEX'S BUDGET IS DEVOTED TO EXPLORATION. HE SAID, HOWEVER, THAT THE PROGRAM WAS CONCENTRATED IN THE CHIAPAS-TABASCO-CAMPECHE AREA AND WAS NOT AS BROAD AS IT COULD BE. HE ALSO IMPLIED THAT MEXICO'S MINIMUM DISCOVERY TARGET WAS THE REPLACEMENT OF THE APPROXIMATELY ONE BILLION BARRELS OF OIL PRODUCED EACH YEAR.

12. BETETA ALSO ADDRESSED SOME FINANCIAL ISSUES. HE

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COMMENTED THAT HE THOUGHT THE BAKER PLAN WAS A GOOD  
START. AT LEAST IT RECOGNIZES THE PROBLEM. HE SAID  
THAT MEXICO WANTS TO PROTECT ITS CREDIT RATING AND IS  
NOT IN FAVOR OF SCHEMES THAT CALL FOR PAYMENT MORATORIUMS  
OR DEBT REPUDIATION. HE AGREED WITH THE SENATOR THAT  
MORE FOCUS NEEDS TO BE PUT ON THE ISSUES SO THAT SPECIFIC  
STEPS TO RESOLVE THE PROBLEMS WILL EMERGE.

13. THE MEETING WAS WARM, CANDID AND INFORMATIVE  
LASTING SOMEWHAT LONGER THAN THE SCHEDULED HOUR. THE  
SENATOR WAS ACCOMPANIED BY A STAFF AIDE, JOHN DEPRES,  
AND PETOFF CHARLES KENNEDY. ATTENDING FROM PEMEX WERE  
LIC. DONACIANO TAMEZ FUENTES, SUBDIRECTOR FOR COMMERCE;  
C. P. JOAQUIN MUNOZ ISQUIERDO, SUBDIRECTOR FOR FINANCE;  
ALFREDO GUTIERREZ KRISCHNER, PEMEX REP IN WASHINGTON  
AND NEW YORK; AND LIC. AUGUSTIN CASAS, PRIVATE SECRETARY  
TO BETETA. (DRAFTED:ECON:CAKENNEDY) BUSBY  
END OF MESSAGE

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